

Memo

To: All Appointing Authorities
Elected, Legislative, and Judicial Officials –Information Only

From: Ann Heilman, DHR Administrator
Brad Foltman, DFM Administrator
Brandon Woolf, Deputy State Controller

Date: May 9, 2006

Re: House Bill 844 – FY07 CEC Guidance Memo

This memo provides implementation guidance for House Bill 844, the FY07 CEC appropriation. Senate Bill 1363a, the product of the Interim Committee on State Employee Compensation, contains a significant amount of additional changes and pay options for agencies to use. A separate guidance memo will be issued on those changes, which go into effect July 1st. Both bills have unique features that require your attention and action.

For FY07, the 3% CEC passed in January is continued for the year. Additional funds and directives are provided for benefit cost increases. A separate communication will be issued by Department of Administration regarding these costs and program changes.

The compensation system will change for FY07, beginning with a new salary structure. All 1139 classified job classifications will be assigned a new pay grade. Such assignments will be based on Hay Point valuation and market average pay rates. This new pay structure and implementation procedures will be announced in a public meeting May 11th, 2006 at 9:00AM. The fiscal impact of the new salary structure is limited to the amount appropriated for FY07 salary increases. The goal of such structure is to have pay grade midpoints more closely related to market average.

All classified job classification pay grade assignments and individual employee records will be programmatically updated by SCO.

All non-classified employees, including executive, legislative, and judicial, are to be compensated in a manner as close as practical to these requirements and will be treated as follows with regards to programmatic updates.

- a. Non-classified employees currently assigned to a classified job classification on the current Hay "H" pay schedule will be programmatically moved into the new assigned pay grade.

- b. Non-classified employees assigned to a non-classified job classification and using the “H” pay schedule, will be programmatically changed to the “0” pay schedule (no rate changes will occur).
- c. Non-classified employees assigned to a non-classified job classification and using the “0” schedule, will not be programmatically updated.

In such cases, if agencies prefer to use the new pay grades, information regarding market average rates for like jobs may be obtained by contacting DHR. Hay Point factoring and/or job analysis are required to make pay grade assignments that mirror the new pay structure for the classified workforce.

After the salary structure is finalized, agencies will need to develop compensation administration plans with much more detail than in the past. DHR will provide an outline to assist in plan formulation as part of S1363 implementation guidance.

The following changes are important for all agencies, please note:

Employees who do not have an achieves performance standards rating or better are not eligible for salary increases due to pay grade changes, and may be paid under the minimum amount. If employees are ineligible for an increase and their current pay rate is under the new minimum amount for their pay grade, a code of Step ‘S’ will be programmatically added to their personnel record. This new Step information is an additional code tied to the Pay Schedule and Grade signifying that the employee is being paid outside of the pay range for his/her specific pay grade.

1. The “Pay for Performance” delivery method is now defined in code, and all agencies are required to use the matrix model to ensure higher performers are given larger percentage raises than others. The matrix model can be modified to address a variety of unique needs in each agency. It does require each person’s current pay rate be compared to the new midpoint, and that factor related to the individual’s performance rating level. Agencies that have not changed to the new four-level system will have to translate current evaluation text to four levels to comply.
2. Agencies may choose to use a matrix provided by DHR, or modify such matrix. DHR approval is required for modified versions.
3. Some agencies and institutions received targeted funding for FY07 in addition to the 3% increase. These funds have unique restrictions and conditions for distribution, including
 - a. raises are based on performance; current performance evaluations are still required;
 - b. raises are only for those with current salaries below the new midpoint;

- c. raises may be given to probationary status employees;
 - d. funds may only be spent on employees in specified class codes;
 - e. a new change reason has been specifically established for processing these actions, "CS – Class Specific Increase".
4. Additional funds appropriated to the Attorney General and ISDB for salary increases are addressed by special criteria established by the Legislature and do not fall under the parameters above.
 5. All agencies are directed to use salary savings to address employee pay increase needs before such funds are considered for operational budget priorities. Employees whose salaries are below the new midpoint of their new pay grade, or employees in jobs where there is significant turnover, must be considered first in the order of salary savings.
 6. All agencies shall report all salary savings reallocated or reverted in FY06 as part of the budget submission process.
 7. DHR approval is required for all compensation and distribution plans prior to salary increase awards.
 8. DFM approval is required to ensure all compensation plans for each agency and higher education institution are implemented within their respective appropriation.

DHR will be issuing temporary rules to clarify the changes in compensation and other HR laws passed this session. Due to the number of law changes, these rules are still being developed.

For those agencies who wish to distribute their additional funds as soon as possible, DHR and DFM plan approvals are required prior to individual IPOPS action processing. Deadline for IPOPS actions (**in awaiting release status**) for payment on the first pay period of the fiscal year is June 28, 2006. DHR will be focusing on development and technical assistance to get to the approval of the total compensation and specific distribution plan at the macro level. Individual IPOPS actions will bypass DHR and DFM once the current performance evaluation is on file.

Thank you for your attention to these important changes. If you need assistance, please contact any of our offices.